

# JUSTIN'S COMMENTARY



Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.



## A LONGER VIEW OF YOUR RETURNS

Time to take a longer view I think. The papers seem to be full of pundits predicting that "the end is nigh" for stock market valuations at their current level. The auguries being cited seem to cover everything from the black arts of the Chartists, through to references to the "hallowed investment gurus" whom you are not able to criticise. From crossed graph lines to the interpretation of "Buffetery", I am sure someone will soon be referencing the rooks flying over the City before long. So yes there will be a stock market pull back or even crash - but when nobody, of course, actually knows. When it happens there will be no doubt one who called it right, but that will be likely to be amongst the very few and the very lucky. The real question is actually - does it matter?

Of course if we were to see a meltdown of catastrophic proportions then it would be devastating, but history does show us that this is a rare event - very rare. However, over the past 14 years we have seen some yawing and sickening movements up and down with all the stomach churning of a roller coaster - especially in the FTSE 100. A couple of recessions, a black swan or two floating by and a global banking crisis are usually enough for anybody. But for all this, what has happened?

Well as you can see from the graphs below, actually the FTSE 100 has lost money over that period. So after all the roller coaster of recovery, austerity and reconstruction, we still haven't reached our peak of the last day of 1999. How depressing.

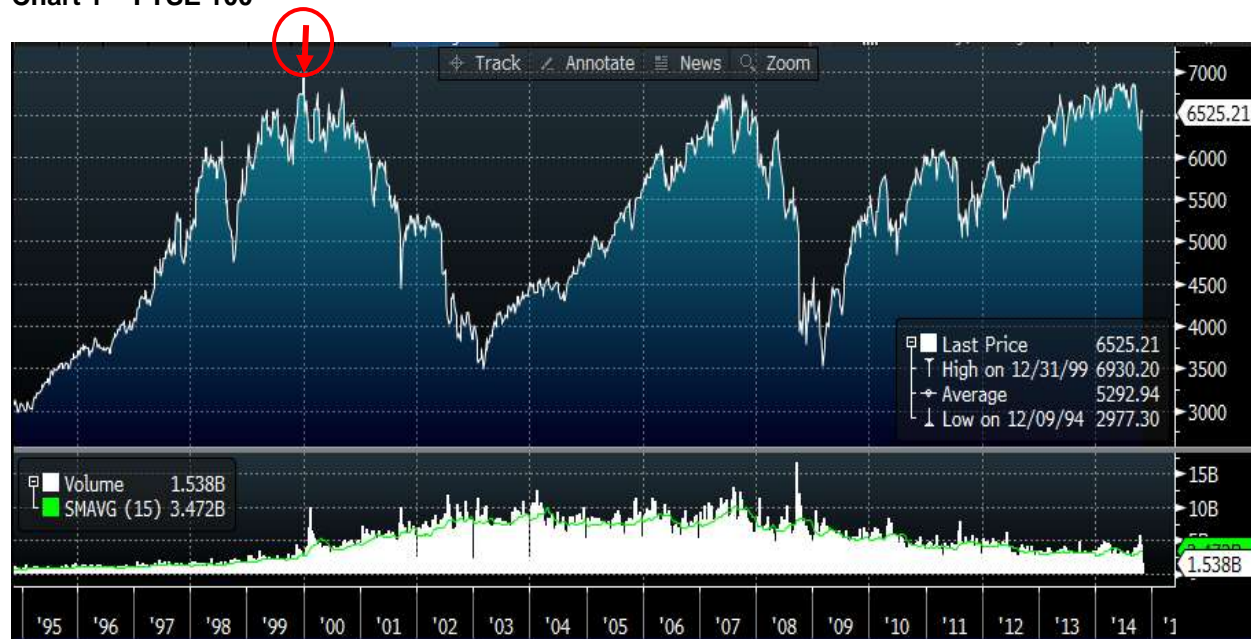
Actually you shouldn't be depressed. If you look at the second graph you will see a good steady trend and in fact if you had included the dividends, then instead of losing 4.8% over 14 years you would have made a relatively healthy 56.6%. The fact is that in most cases your dividends and their reinvestment are more important than the vagaries of individual stock movements. Dividends may sound dull but just look how much they contribute each year.

In 2012 the figure for dividends paid was just over £80 billion, reducing marginally the following year to around £79 billion. That is the equivalent of a new BP, Unilever or Glaxo each year. Forecasts this year are for an increase to around £100 billion, but there has been the £15.9 billion special dividend from Vodafone included in that.

The top five dividend payers in 2013 were Shell, Vodafone, AstraZeneca, BP and Glaxo, accounting for £7.5 billion.

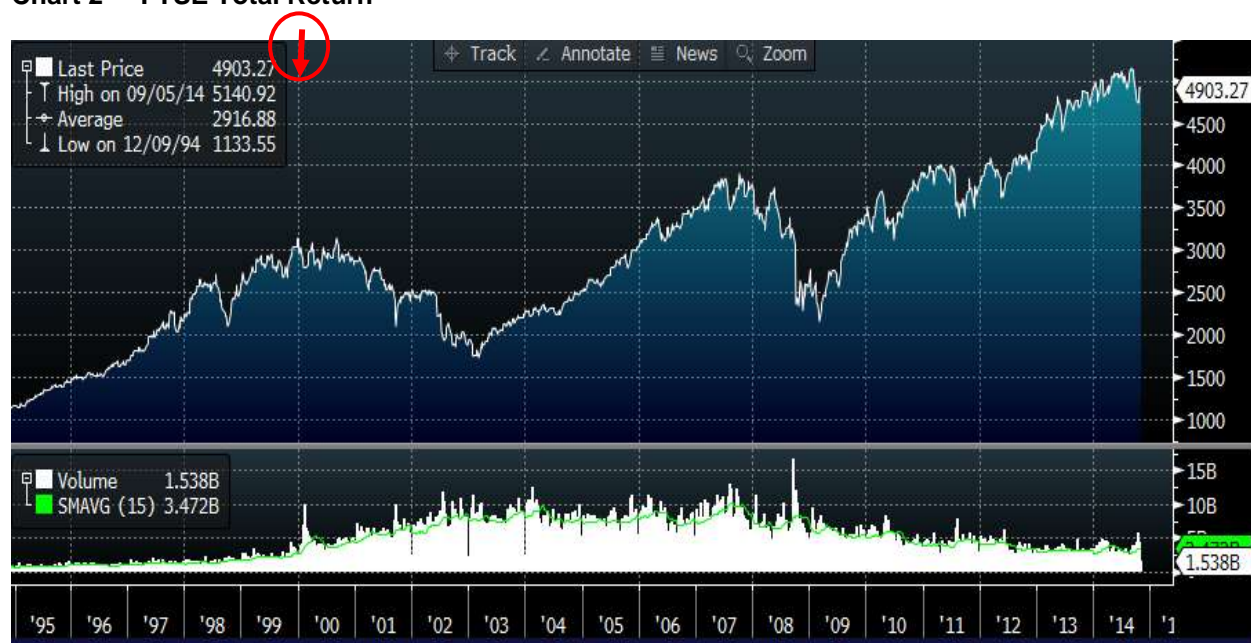
This should be regarded as being even more surprising when you consider that one of the traditional and usually "reliable" dividend and income providers to the market has effectively been destroyed, at least for the time being. Gone are the days when we used to be able to "rely" upon these nice little earners coming through from the banks - and especially the respectable income that was the Lloyds' dividend which regularly seemed to pay more than double its best deposit rates. Those days are gone and in fact may never return - certainly in that form again.

Chart 1 – FTSE 100



Source – Bloomberg

Chart 2 – FTSE Total Return



Source – Bloomberg

### **Irish property**

Often blamed as the catalyst for their woes, the Irish property market has at last been showing some significant signs of recovery. After years of speculative bad lending by thoroughly irresponsible and unprofessional lenders, the pain felt by many may now slowly be starting to ease. Although those empty housing estates will stand as tombstones of the economic crisis for years to come, the mainstream has at last started to flow again.

Residential property prices on a national basis have apparently risen by 15% in the year to September. This is quite an improvement compared to the measly 3.6% recorded in the comparative year to September 2013. Not unsurprisingly Dublin, and those within The Pail, saw house prices rise by 22.6% over the year with apartment prices sometimes over 35%! Encouraging or a start of the same thing happening again? Well on a national basis prices are still 39.9% lower than its peak in 2007, so there is still some way to go.

### **Body language**

By the way, it's worth a look to see the greeting and handshake between Japanese Prime Minister Abe and Chinese Premier Xi Jinping. If inter-government talks are supposed to smooth relations and build trust, then this looks as though it was a fundamental failure. You could see that neither were comfortable being there, shaking hands or even being photographed there. Their national animosity is historic, but their current behaviour is worrying, especially when you consider their disputes over the East China Sea and Japan's "assisting" the Vietnamese with a few spare gunboats.

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**And finally....**a great headline from the US – “Cloud of pot smoke puts Colorado high school on partial lockdown” A high school in Colorado, one of the first two U.S. states to legalize recreational marijuana use, was put on partial lockdown recently after a student's weed pipe filled a classroom with pot smoke, the school said.

The smoke from the device, known as a "gravity bong" or "bucket," was released into a classroom at about 9:45 a.m. at the school.

"As a precautionary measure, our students were placed on a modified lockdown to limit movement throughout the school," the school said adding that teenagers who had been near the device were examined by medical personnel.

The school said it was working with the proper authorities to resolve the issue, and that it would provide more information when available. It did not give details on the student who brought the pipe to class, nor possible disciplinary measures.

Well at least the classes were all calm and really quite mellow that day. Mind you I don't know what they are fussing about because on this basis most of Shepherds Bush should be on lock down.

Have a good week

Justin

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